JAMES MADISON UNIVERSITY®

AUDITED FINANCIAL REPORT

FOR THE YEAR ENDED

JUNE 30, 2015

JAMES MADISON UNIVERSITY

AUDITED FINANCIAL REPORT 2014 - 2015

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MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

Overview

This Management's Discussion and Analysis (MD&A) is required supplemental information under the Governmental Accounting Standards Board (GASB) reporting model. It is designed to assist readers in understanding the accompanying financial statements and provides an overall view of the university's financial activities based on currently known facts, decisions, and conditions. This discussion includes an analysis of the University's financial condition and results of operations for the fiscal year ended June 30, 2015. Comparative numbers, where presented, are for the fiscal year ending June 30, 2014, however, the comparative information presented does not include the necessary adjustments related to the implementation of GASB Statement 68 for the 2014 financial statements to be comparative with the 2015 financial statements. The information needed to make these adjustments is not available for prior years. Since this presentation includes highly summarized data, it should be read in conjunction with the accompanying financial statements, notes to financial statements, and other supplementary information. University management is responsible for all of the financial information presented, including this discussion and analysis.

The financial statements referred to above were prepared in accordance with GASB Statement Number 35, *Basic Financial Statements–and Management's Discussion and Analysis–for Public Colleges and Universities,* as amended by GASB Statement Numbers 37, 38, 61 and 63. The three basic financial statements are the Statement of Net Position (balance sheet), the Statement of Revenues, Expenses, and Changes in Net Position (operating statement), and the Statement of Cash Flows. These statements are summarized and analyzed in the following sections.

GASB Statement Number 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34*, addresses which fund-raising, research, or other foundations should be included as component units and how these component units should be displayed in the financial statements. Under Statement Number 61's standards, the James Madison University Foundation, Inc. (Foundation) meets the criteria and is included as a component unit. The Foundation is presented in a separate column on the University's financial statements; however, inter-company transactions between the University and the Foundation have not been eliminated. The remainder of this discussion and analysis excludes the Foundation's financial condition and activities.

The following GASB statements of standards became effective in fiscal year 2015: Statement 68, *Accounting and Financial Reporting for Pensions – an amendment of statement 27,* Statement 69, *Government Combinations and Disposals of Government Operations,* and Statement 71, *Pension Transition for Contributions made Subsequent to the Measurement Date – an amendment of Statement 68.* Statement 68 improves information provided by state and local governments whose employees are provided pensions. Statement 68 requires government employers that sponsor defined benefit plans to recognize a net pension liability (unfunded accrued liability) in their statement of net position. The university recognized its proportionate share of the Virginia Retirement System's net pension liability in the amount of $128.0 million for the fiscal year ending June 30, 2015. Additionally, Statement 68 resulted in a net reduction in the unrestricted net position of $140.1 million. Statement 68 also established standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenditures related to pensions. Pension expense will now be based on the net pension liability change between reporting dates, with some sources of the changes recognized immediately in expense and other amortized over years. Statement 71 amended Statement 68 to allow the reporting government to recognize a beginning deferred outflow of resources only for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability but before the start of the government's fiscal year when it is not practical to determine the amounts of all applicable deferred inflows of resources and deferred outflows of resources related to pensions. The University recognized deferred outflows of $12.5 million and deferred inflows of $22.6 million for the Virginia Retirement System's Defined Benefit pension plan for the fiscal year ending June 30, 2015. Additionally Statement 68 requires an extensive footnote disclosure as well as required Supplementary Information. See Note 11 for additional pension information. Statement 69 established accounting and financial reporting standards related to government combination and disposals of government operations. The University had no activities that would be reportable under the conditions in this statement.

<u>Statement of Net Position</u>

The Statement of Net Position (SNP) presents the University's assets, liabilities, and net position as of the end of the fiscal year. The purpose of this statement is to present to the financial statement readers a snapshot of the University's financial position at June 30, 2015. The data presented in the SNP aids in determining the assets available to continue the University's operations. It also allows readers to determine how much the University owes to vendors and creditors. Finally, the SNP provides a picture of net assets and their availability for expenditure by the University. Sustained increases in net position are one indicator of an organization's financial health.

Net position is divided into the following major categories:

- Net investment in capital assets – The net investment in capital assets category represents the University's total investment in capital assets, net of accumulated depreciation and outstanding debt obligations related to those capital assets. Debt incurred, but not yet expended for capital assets, is not included as a component of net investment in capital assets.

- Restricted net position, expendable – The expendable restricted position includes resources the University is legally or contractually obligated to expend in accordance with restrictions imposed by external third parties.

- Restricted net position, nonexpendable – Non-expendable restricted net position consists of endowments and similar type funds where donors or other outside sources have stipulated that, as a condition of the gift instrument, the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income to be expended or added to the principal.

- Unrestricted net position – Unrestricted net position represents resources used for the University's general operations. They may be used at the discretion of the University's Board of Visitors to meet current expenses for any lawful purpose in support of educational, general, and auxiliary activities. The unrestricted component of net position absorbed 100% of the beginning balance adjustment for the pension liability resulting from implementation of GASB Statement 68.

Statement of Net Position
(In thousands)

	2015	2014	Amount	Percent
Current Assets	**185,534**	**167,123**	**18,411**	**11.0%**
Noncurrent assets				
Capital assets, net	975,866	894,397	81,469	9.1%
Other noncurrent assets	38,337	45,711	(7,374)	-16.1%
Total noncurrent assets	**1,014,203**	**940,108**	74,095	7.9%
Deferred outflow of resources	**17,425**	**1,832**	**15,593**	**851.1%**
Total Assets and deferred outflow of resources	**1,217,162**	**1,109,063**	**108,099**	**9.7%**
Current liabilities	**100,288**	**90,789**	**9,499**	**10.5%**
Noncurrent liabilities				
Long-term liabilities	299,355	256,293	43,062	16.8%
Net pension liability	127,982	-	127,982	100.0%
Total Noncurrent liabilities	**427,337**	**256,293**	171,044	66.7%
Deferred inflow of resources	**22,853**	**273**	**22,580**	**8271.1%**
Total liabilities and deferred inflow of resources	**550,478**	**347,355**	**203,123**	**58.5%**
Net position				
Net investment in capital assets	698,604	669,184	29,420	4.4%
Restricted - expendable	7,304	8,496	(1,192)	-14.0%
Unrestricted	(39,224)	84,029	(123,253)	-146.7%
Total net position	**666,684**	**761,709**	**(95,025)**	**-12.5%**

In 2015, the University's total assets and deferred outflow of resources increased by $108.1 million, mostly attributable to the $81.5 million net increase in capital assets. Significant additions included construction-in-progress capitalized during the year, including the Grace Street Housing project ($29.8 million), University Recreation renovation/expansion ($29.3 million), and Health Sciences building ($24.8 million). The increase in capital assets is further discussed in the next section of this analysis.

The $18.4 million increase in current assets primarily relates to auxiliary cash balances, which increased $15.5 million. Additionally, unexpended bond funds used to pay accounts payable increased by $4.4M. These increases are offset by a $4.2 million decrease in cash and cash equivalents related to securities lending. Other non-current assets decreased by $7.4 million, largely due to a $5.8 million decrease in unspent bond proceeds held as restricted cash equivalents, which were used primarily for the Grace Street Student Housing and University Recreation renovation/expansion projects. Current liabilities increased $9.5 million, including an increase of $7.0 million for accounts payable and accrued expenses. The increase in accounts payable and accrued expenses is largely attributable to the timing of retainage payable related to the Grace

Street Student Housing, University Recreation renovation/expansion, and Health Science Building projects. Additional increases in current liabilities are the result of a $4.2 million increase in the current portion of long-term debt and a $2.3 million increase in deferred revenue. These increases are offset by a $4.3 million decrease in obligations under securities lending.

Non-current liabilities increased by $171.0 million, primarily due to the implementation of GASB Statement 68 which requires government employers that sponsor defined benefit plans to recognize a net pension liability (unfunded accrued liability) in their statement of net position. The University recognized its proportionate share of the Virginia Retirement System's net pension liability in the amount of $128.0 million for the fiscal year ending June 30, 2015. Prior year amounts were not restated, resulting in the entire amount of $128.0 million being an increase over last year. Additionally, long-term liabilities increased $43.1 million, primarily due to a $46.0 million increase in long-term debt. For more detailed debt information, see the Capital Asset and Debt Administration section.

The increase in total assets along with the increase in total liabilities is reflected in the year-over- year decrease of the University's net position of $95.0 million. Net position in the category of net investment in capital assets increased $29.4 million, reflecting the university's continued investment in new facilities and equipment supporting the university's missions, as well as prudent management of the university's fiscal resources. The unrestricted net position decrease of $123.3 million is misleading because prior year amounts were not restated for the GASB Statement 68 beginning balance adjustment of $140.1 million.

Capital Asset and Debt Administration

A critical factor in ensuring quality University academic, research, and residential life functions is the development and renewal of its capital assets. The University continues to maintain and upgrade current facilities as well as pursue funding opportunities for construction and purchase of additional facilities. Investment in new and upgrading current structures serves to enrich high-quality instructional programs, research activities, and residential lifestyles.

Note 5 of the Notes to Financial Statements describes the University's significant investment in capital assets with total depreciable capital asset additions of $35.0 million (excludes land, artwork and construction-in-progress) in 2015, as compared to $127.0 million in 2014. Additions in fiscal year 2015 included purchases of equipment and library materials ($9.3 million), installation of turf on various fields ($3.4 million), completion of the Newman Lake Dam ($3.3 million), capitalization of residual Student Success Center costs ($2.4 million), completion of surface parking at University Park ($2.0 million), completion of leasehold improvements to Lakeview Hall ($1.8 million), and renovations to Warren Hall and Taylor Hall ($1.7 million). Additions in fiscal year 2014 included completion of the Student Success Center renovations ($54.8 million), Duke Hall renovation/expansion ($38.2 million), and Health Center renovation ($11.3 million). Newman Lake Dam, Duke Hall and the Student Success Center were primarily funded with 21st Century program funding, while the Student Success Center also utilized debt proceeds for the portion of the project related to dining facilities. The field turf, surface parking at University Park, and Warren Hall and Taylor Hall renovations were funded from the University's auxiliary reserve. The renovation of Lakeview Hall was funded from the University's non-general funds. Non-depreciable additions for 2015 include $5.1 million for various land purchases adjacent to the University. Non-depreciable additions for 2014 include $2.8 million for various land purchases adjacent to the University. Depreciation expense was $37.0 million and $35.0 million in 2015 and 2014, with net retirements of $10.0 million and $1.6 million resulting in a net decrease of depreciable capital assets of $12.1 million and a net increase of $90.4 million for 2015 and 2014, respectively.

Major projects still under construction at June 30, 2015 include Grace Street Student Housing ($44.8 million), University Recreation renovation/expansion ($37.4 million), and the Health Sciences Building ($28.8 million). The Grace Street Student Housing and University Recreation renovation/expansion projects are primarily funded by debt proceeds, while the Grace Street Student Housing project includes auxiliary reserve funding as well. The Health Sciences Building is primarily funded with state 21st Century program funds. Major projects under construction at June 30, 2014 included Grace Street Student Housing ($15.0 million), University Recreation renovation/expansion ($8.1 million), and the Health Sciences Building ($4.1 million).

The University's total long-term debt increased to $307.8 in 2015 from $261.8 million in fiscal year 2014. The increase is the result of new debt in 2015 of $48.2 million for renovation and expansion of the University Recreation facility; offset by debt principal payments made throughout the year on outstanding debt balances.

The University's Board of Visitors approved "Debt Management Guidelines and Procedures" established that the maximum annual debt service costs as a percentage of total operating revenues shall not exceed ten percent for non-revenue producing capital projects. The University's 2015 ratio was 5.1 percent, as compared to 4.6 percent for 2014.

Overall, unpaid construction and other related contractual commitments increased from $59.1 million in 2014 to $ 71.1 million in 2015. Unpaid commitments at June 30, 2015 primarily reflect construction contracts on the Health Science building, University Recreation renovation/expansion, and the Mason Street Parking Deck. Unpaid commitments at June 30, 2014 primarily reflected construction contracts on Grace Street Student Housing, University Recreation renovation/expansion, and Health Science building. Further information relating to capital assets, construction, and capital debt is included in the Notes to Financial Statements in Notes 5 and 8.

Statement of Revenues, Expenses, and Changes in Net Position

The operating and non-operating activities creating the changes in the University's total net position are presented in the Statement of Revenues, Expenses, and Changes in Net Position. The purpose of the statement is to present all revenues received and accrued, all expenses paid and accrued, and gains or losses from investment and capital asset activities.

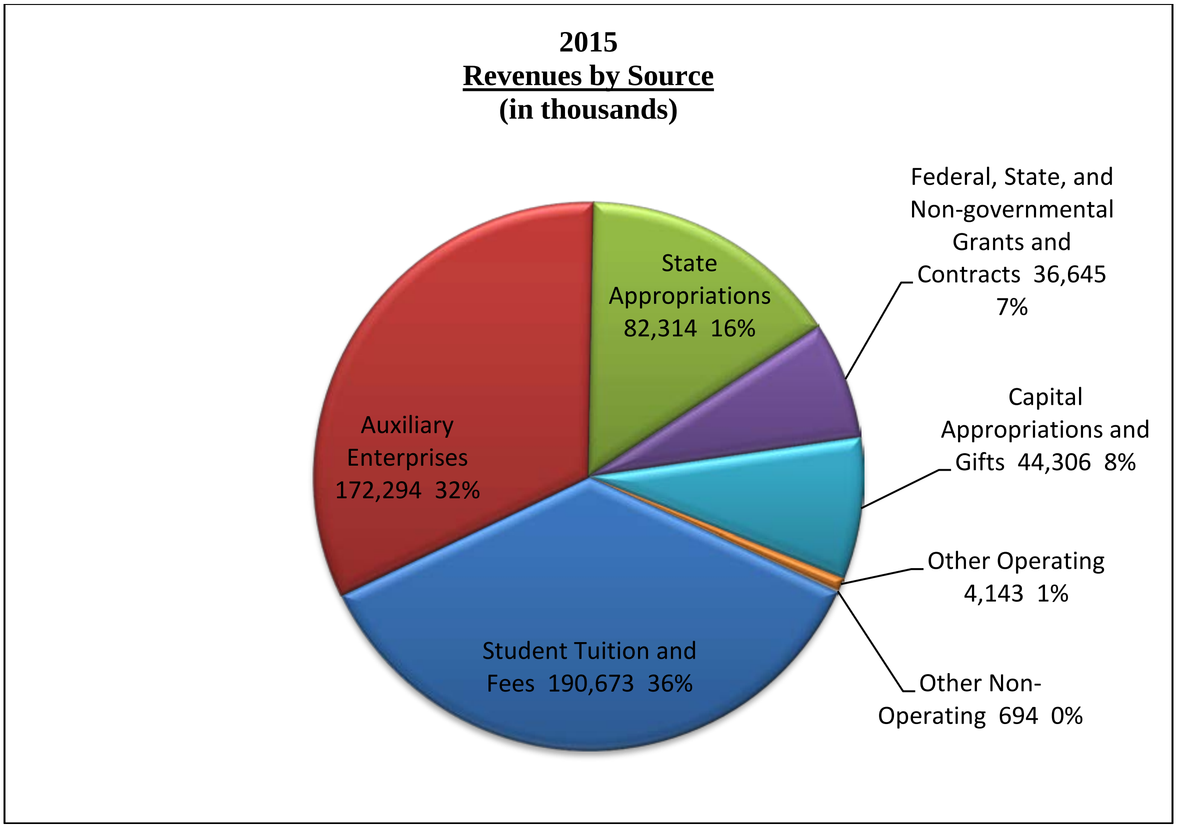
Generally, operating revenues are received for providing goods and services to students and other constituencies of the University. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues and to carry out the University's mission. Salaries and wages, and fringe benefits for faculty and staff are the largest type of operating expense.

Non-operating revenues are revenues received for which goods and services are not directly provided. State appropriations and gifts are included in this category, but provide substantial support for paying the University's operating expenses. Therefore, the University, like most public institutions, will expect to show an operating loss.

Statement of Revenues, Expenses, and Changes in Net Position
(In thousands)

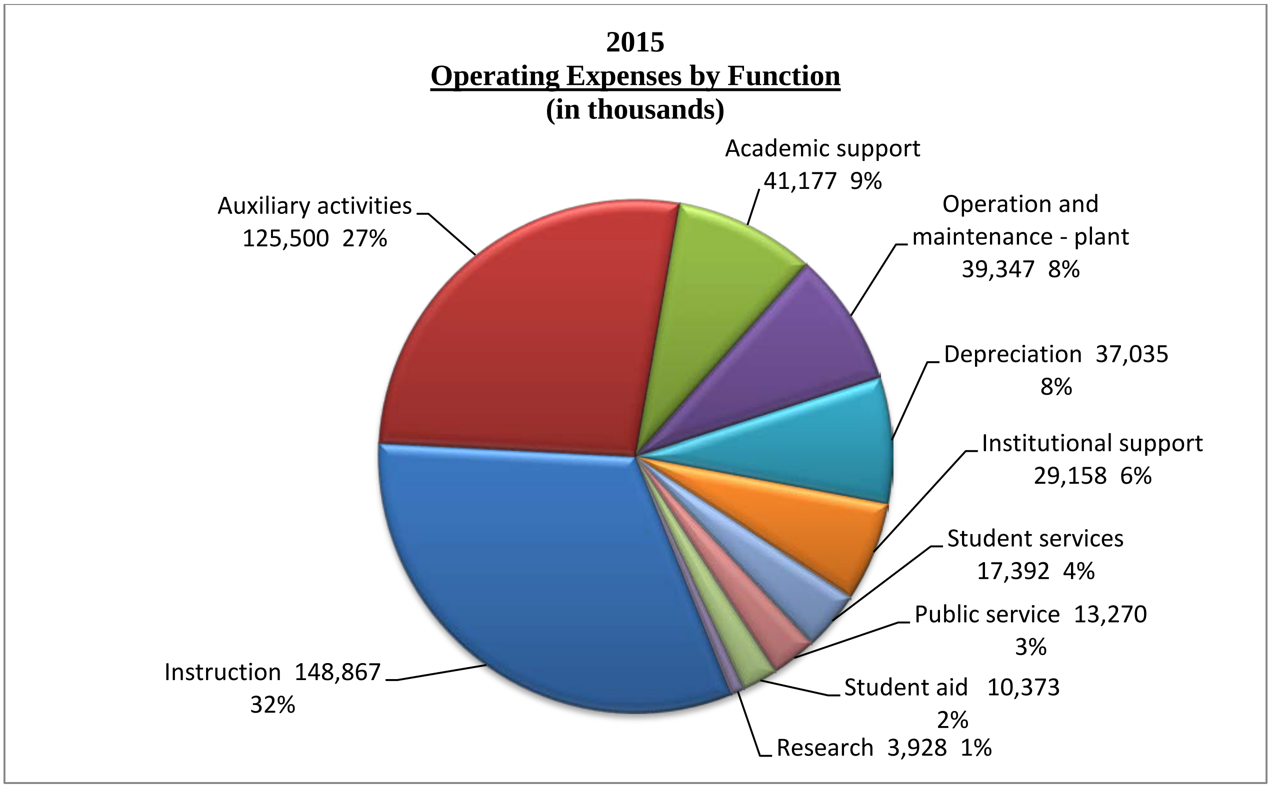
	2015	2014	Increase (Decrease) Amount	Increase (Decrease) Percent
Operating revenues	**391,550**	**370,632**	**20,918**	**5.6%**
Operating expenses	**466,047**	**447,557**	**18,490**	**4.1%**
Operating loss	**(74,497)**	**(76,925)**	**2,428**	**-3.2%**
Nonoperating revenues (expenses)				
State appropriations	82,314	82,189	125	0.2%
Grants and Contracts	12,205	11,118	1,087	9.8%
Gifts	7	847	(840)	-99.2%
Investment Income	687	786	(99)	-12.6%
Interest on capital asset related debt	(7,485)	(8,365)	880	-10.5%
Loss on disposal of plant assets	(9,566)	(1,301)	(8,265)	635.3%
Payments to the Commonwealth	(2,890)	(2,890)	-	0.0%
Net nonoperating revenue (expenses)	**75,272**	**82,384**	**(7,112)**	**-8.6%**
Income before other revenues, expenses, gains, or losses	**775**	**5,459**	**(4,684)**	**-85.8%**
Capital appropriations and contributions	43,198	42,412	786	1.9%
Capital gifts	1,108	104	1,004	965.4%
Total other	**44,306**	**42,516**	**1,790**	**4.2%**
Increase in net position	**45,081**	**47,975**	**(2,894)**	**-6.0%**
Net position - beginning of year	761,709	713,734	47,975	6.7%
Adjustment to beginning net position	(140,106)	-	(140,106)	100.0%
Net position - end of year	**666,684**	**761,709**	**(95,025)**	**-12.5%**

Following is a graphic illustration of revenues by source (both operating and non-operating) used to fund the University's activities for the years ended June 30, 2015. As noted above, critical recurring revenue sources such as state and capital appropriations are considered non-operating.



Operating revenues, consisting mostly of tuition and fees and auxiliary enterprises, increased \$20.9 million or six percent from the prior fiscal year. Student tuition and fees, net of scholarship allowances, increased by \$12.7 million or seven percent in fiscal year 2015. The 2015 tuition increase was due to a combination of average rate increases of five percent and an approximate three percent increase in undergraduate headcount. Auxiliary revenues increased by \$10.1 million or six percent. The increase reflects an approximate four percent rate increase in room, board, and comprehensive fees year over year.

The following graphical illustration presents total operating expenses for fiscal year 2015 by function.



Total 2015 operating expenses increased $18.5 million or five percent. Compensation expenses, consisting of the natural expense classifications salaries, wages, and fringe benefits, comprise the largest University expense. Compensation expenses comprised 55 percent of the University's total operating expenses in 2015 and 53 percent in 2014. Compensation expense increased by $17.0 million, or seven percent. The increase is a result of increases in salaries/wages ($6.7 million) due to salary increases for instructional faculty and increases in faculty and non-faculty headcount, non-instructional faculty bonuses ($4.0 million), and employer paid medical insurance rates ($2.7 million).

Net non-operating revenue and expenses totaled $75.3 million, an increase of $7.1 million from the prior year. The increase in this category results primarily from the current year loss on disposal of plant assets of $9.6 million due to the demolition of Montpelier Hall related to the construction of the Health Sciences building ($5.5 million) and the demolition of the Rockingham Hall dormitory ($2.3 million).

Statement of Cash Flows

The Statement of Cash Flows presents detailed information about the University's cash activity during the year. Operating cash flows will always be different from the operating loss on the Statement of Revenues, Expenses, and Changes in Net Position (SRECNP). This difference occurs because the SRECNP is prepared on the accrual basis of accounting and includes non-cash items such as depreciation expense, and the Statement of Cash Flows presents cash inflows and outflows without regard to accrual items. The Statement of Cash Flows assists readers in assessing the ability of an institution to generate future cash flows necessary to meet obligations and evaluate its potential for additional financing.

The statement is divided into five sections. The first section shows the net cash used by the University's operating activities. The next section reflects the cash flows from non-capital financing activities and includes state appropriations for the University's educational and general programs and financial aid. This section reflects the cash received and spent for items other than operating, investing, and capital financing purposes. Cash flows from capital financing activities present cash used for the acquisition and construction of capital and related items. The next section shows cash flows related to purchases, proceeds, and interest received from investing activities. The last section reconciles the net cash used by operating activities to the operating loss reflected on the SRECNP.

Statement of Cash Flows
(in thousands)

	2015	2014	Amount	Percent
Cash provided (used) by:				
Operating activities	(34,273)	(38,688)	4,415	-11.4%
Non-capital financing activities	91,214	92,654	(1,440)	-1.6%
Capital financing activities	(43,716)	(3,456)	(40,260)	1164.9%
Investing activities	777	1,232	(455)	-36.9%
Net increase(decrease) in cash	**14,002**	**51,742**	**(37,740)**	**-72.9%**
Cash - beginning of the year	175,824	124,082	51,742	41.7%
Cash - end of the year	**189,826**	**175,824**	**14,002**	**8.0%**

Major sources of cash from operating activities include student tuition and fees ($193.0 million in 2015 and $177.2 million in 2014), auxiliary enterprises receipts ($172.5 million in 2015 and $161.5 million in 2014), and grants and contracts ($24.2 million in 2015 and $28.2 million in 2014). Major uses of cash include payments for salaries, wages, and fringe benefits ($252.4 million in 2015 and $235.2 million in 2014), payments for supplies, services, and utilities ($141.5 million in 2015 and $139.0 million in 2014), and payments for non-capitalized plant improvements and equipment ($24.9 million in 2015 and $25.0 million in 2014).

Cash flows from non-capital financing activities include state appropriations for the University's educational and general programs and financial aid of $82.3 million and $82.2 million in 2015 and 2014, respectively. The cash flows from capital financing activities section deals with cash used for the acquisition and construction of capital and related items. Primary sources of cash from capital financing activities in 2015 and 2014 include capital appropriations and contributions ($42.3 million in 2015 and $51.1 million in 2014) and proceeds from issuance of capital related debt ($57.0 million in 2015 and $50.0 million in 2014). Significant cash outflows include purchases and construction of capital assets ($120.0 million in 2015 and $83.9 million in 2014) and repayment of principal and interest on capital related debt ($24.0 million in 2015 and $20.8 million in 2014).

Economic Outlook

The University, as a public institution, is subject to many of the economic conditions impacting the Commonwealth of Virginia. Economic factors related to the Commonwealth can be found in the Commonwealth's Comprehensive Annual Financial Report (CAFR). As a public institution, the University receives significant Commonwealth support from operating and capital appropriations. State operating appropriations currently cover 27 percent of operating expenses, excluding auxiliary activities and depreciation. The *Virginia Higher Education Opportunity Act* of 2011 marked the commonwealth's reemphasis on positioning institutions of higher education for the future. While the Commonwealth of Virginia maintains the university's board of visitors' authority to establish tuition and fee rates, significant national and state emphasis has been focused on slowing the rate of tuition growth for undergraduate students, particularly state residents. Although the commonwealth has expressed interest in enhancing its investment in higher education, slow growth in state revenue has limited discretionary general fund resources available for higher education. While the commonwealth reduced its 2015 General Fund support of the university by $3.1 million (3.7% decrease), economic signals are positive that the state economy is growing and future investment in higher education may be possible. The commonwealth ended fiscal year 2014-15 with a surplus, and 2015-16 monthly revenues are currently trending above projections.

The University continues to work with the state officials to support higher education through the *Virginia Higher Education Opportunity Act of 2011*. The six year academic, enrollment, and financial planning process defined by this legislation has potential implications for future state support and tuition rates. As a part of this funding framework, the commonwealth has moved to an environment that seeks to incentivize certain activities in support of state goals such as increased STEM-H (science, technology, engineering, mathematics, and health) degree completion.

The Higher Education Restructuring Act (Act) provides a framework for the University to potentially gain additional decentralized authority from the Commonwealth in financial and administrative operations. In exchange for meeting 11 state goals listed in the Act, the University will be eligible for the immediate benefits of level one autonomy. Benefits include additional flexibility and authority with regard to disposing of property, entering into capital lease agreements, continuing existing memorandums of understanding for decentralized activities, and procurement flexibility. As required by the Act, the University's Board of Visitors passed a resolution committing to these goals in June 2005. In September 2008, the University's Board of Visitors approved management's request to move to level two autonomy under the Higher Education Restructuring Act in the areas of Procurement and Information Technology. The University received this delegated restructuring authority during 2009.

The University's overall financial position remains strong. As in fiscal year 2014, the University generated an overall increase in net position during 2015 (excluding the effects of GASB 68 implementation). These increases are indicators of the University's sound and prudent uses of financial resources. Management continues to maintain a close watch over resources and the U.S. economy as a whole to react to unknown internal and external issues and sustain the University's current sound financial position.

FINANCIAL STATEMENTS

JAMES MADISON UNIVERSITY
STATEMENT OF NET POSITION
As of June 30, 2015 (with comparative information as of June 30, 2014)

	2015		2014	
	University	Component Unit	University	Component Unit
ASSETS				
Current assets:				
Cash and cash equivalents (Note 2)	$ 155,810,334	$ 3,121,732	$ 134,394,162	$ 3,996,832
Securities lending - Cash and cash equivalents (Note 2)	3,819,556	-	8,040,739	-
Short-term investments (Note 2)	138,245	-	260,332	-
Accounts receivable (Net of allowance for doubtful accounts of $734,903 and $598,752 for 2015 and 2014, respectively) (Note 3)	5,808,806	53,575	5,983,689	56,475
Contributions receivable (Net of allowance for doubtful contributions of $46,522 and $37,983 for 2015 and 2014, respectively) (Note 3)	-	1,530,533	-	1,126,150
Due from the Commonwealth (Note 4)	7,274,047	-	6,364,503	-
Prepaid expenses	10,672,453	94,674	10,735,912	90,497
Prepaid expenses to component unit	528,241	-	-	-
Inventory	1,075,433	-	955,854	-
Notes receivable (Net of allowance for doubtful accounts of $44,695 and $46,598 for 2015 and 2014, respectively)	406,864	-	388,080	-
Total current assets	185,533,979	4,800,514	167,123,271	5,269,954
Non-current assets:				
Restricted cash and cash equivalents (Note 2)	34,015,760	-	41,430,267	-
Endowment investments (Note 2)	-	55,024,642	-	51,529,317
Other long-term investments (Note 2)	2,136,464	42,319,865	2,111,959	42,035,137
Land held for future use	-	6,420,710	-	4,860,348
Contributions receivable (Net of allowance for doubtful contributions of $90,447 and $33,458 for 2015 and 2014 respectively) (Note 3)	-	4,319,450	-	1,639,479
Prepaid expenses	278,212	-	273,646	-
Notes receivable (Net of allowance for doubtful accounts of $209,254 and $227,508 for 2015 and 2014, respectively)	1,906,697	-	1,895,267	-
Capital assets, net: (Note 5)				
Non-depreciable	210,521,392	1,299,978	116,972,861	1,250,552
Depreciable	765,344,690	3,791,165	777,424,233	3,859,658
Other assets	-	18,455	-	19,655
Total non-current assets	1,014,203,215	113,194,265	940,108,233	105,194,146
DEFERRED OUTFLOW OF RESOURCES				
Related to debt refundings (Note 9)	4,880,613	-	1,831,849	-
Related to pensions (Note 11)	12,544,289	-	-	-
Total deferred outflow of resources	17,424,902	-	1,831,849	-
Total assets and deferred outflow of resources	$ 1,217,162,096	$ 117,994,779	$ 1,109,063,353	$ 110,464,100

JAMES MADISON UNIVERSITY
STATEMENT OF NET POSITION
As of June 30, 2015 (with comparative information as of June 30, 2014)

	2015		2014	
	University	Component Unit	University	Component Unit
LIABILITIES				
Current liabilities:				
Accounts payable and accrued expenses (Note 6)	$ 52,445,640	$ 224,634	$ 45,361,541	$ 208,100
Unearned revenue	15,145,646	-	12,825,654	326,363
Unearned revenue from James Madison University	-	528,241	-	-
Obligations under securities lending	3,957,801	-	8,301,071	-
Deposits held in custody for others	7,487,555	-	7,288,631	-
Long-term liabilities - current portion (Note 7)	21,251,531	232,501	16,961,338	234,176
Advance from the Treasurer of Virginia	-	-	50,000	-
Total current liabilities	100,288,173	985,376	90,788,235	768,639
Non-current liabilities:				
Long-term liabilities (Note 7)	299,354,618	2,519,747	256,293,156	2,709,394
Net pension liability (Note 11)	127,982,000	-	-	-
Total non-current liabilities	427,336,618	2,519,747	256,293,156	2,709,394
DEFERRED INFLOW OF RESOURCES				
Related to debt refundings (Note 9)	206,183	-	273,166	-
Related to pensions (Note 11)	22,647,000	-	-	-
Total deferred inflow of resources	22,853,183	-	273,166	-
Total liabilities and deferred inflow of resources	550,477,974	3,505,123	347,354,557	3,478,033
NET POSITION				
Net investment in capital assets	698,604,063	2,950,032	669,184,291	2,812,432
Restricted for:				
Non-expendable:				
Scholarships and fellowships	-	38,147,294	-	36,181,726
Research and public service	-	2,229,935	-	2,130,282
Other	-	16,430,583	-	14,111,315
Expendable:				
Scholarships and fellowships	-	14,313,458	-	14,718,426
Research and public service	2,330,578	1,592,969	1,925,310	1,852,860
Debt service	555,564	-	368,013	-
Capital projects	4,097,175	3,535,472	5,885,386	2,230,789
Loans	320,256	-	317,366	-
Other	-	21,557,584	-	20,053,582
Unrestricted	(39,223,514)	13,732,329	84,028,430	12,894,655
Total net position	$ 666,684,122	$ 114,489,656	$ 761,708,796	$ 106,986,067

The accompanying Notes to Financial Statements are an integral part of this statement.

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JAMES MADISON UNIVERSITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the year ended June 30, 2015 (with comparative information for the year ended June 30, 2014)

	2015		2014	
	James Madison University	Component Unit	James Madison University	Component Unit
Operating revenues:				
Student tuition and fees (Net of scholarship allowances of $13,878,914 and $13,099,419 for 2015 and 2014, respectively)	$ 190,672,526	$ -	$ 177,989,678	$ -
Gifts and contributions	-	9,332,499	-	6,465,956
Federal grants and contracts	11,640,287	-	13,266,312	-
State grants and contracts	7,606,589	-	7,895,698	-
Non-governmental grants and contracts	5,193,318	-	6,026,609	-
Auxiliary enterprises (Net of scholarship allowances of $10,172,952 and $9,676,813 for 2015 and 2014, respectively) (Note 12)	172,294,173	-	162,183,276	-
Sales and Services of Education and General Activities	1,941,835	-	1,816,718	-
Other operating revenues	2,201,181	782,042	1,453,033	574,088
Total operating revenues	391,549,909	10,114,541	370,631,324	7,040,044
Operating expenses (Note 13):				
Instruction	148,867,454	623,060	140,358,805	639,174
Research	3,927,760	12,687	4,842,870	9,881
Public service	13,269,895	159,897	13,074,273	90,016
Academic support	41,176,992	979,467	39,656,736	736,996
Student services	17,391,590	105,956	15,873,848	91,543
Institutional support	29,157,909	5,662,637	25,682,435	5,094,382
Operation and maintenance - plant	39,347,115	1,031,816	39,290,677	57,550
Depreciation	37,035,401	116,721	35,036,678	78,567
Student aid	10,372,523	3,408,477	9,759,658	3,073,024
Auxiliary activities (Note 12)	125,500,090	887,512	123,981,584	661,907
Total operating expenses	466,046,729	12,988,230	447,557,564	10,533,040
Operating loss	(74,496,820)	(2,873,689)	(76,926,240)	(3,492,996)
Non-operating revenues/(expenses):				
State appropriations (Note 14)	82,313,650	-	82,188,926	-
Grants and contracts (Note 1 M.)	12,204,795	-	11,117,769	-
Gifts	7,226	-	847,606	-
Investment income (Net of investment expense of $9,575 and $11,762 for the University and $331,519 and $444,729 for the Foundation for 2015 and 2014, respectively)	687,854	2,737,306	785,908	11,416,060
In-Kind support from James Madison University	-	3,725,684	-	3,463,148
Interest on capital asset - related debt	(7,485,105)	(109,443)	(8,365,194)	(45,438)
(Loss) on disposal of plant assets	(9,566,285)	-	(1,300,783)	-
Payment to the Commonwealth	(2,890,082)	-	(2,890,082)	-
Net non-operating revenues/(expenses)	75,272,053	6,353,547	82,384,150	14,833,770
Income before other revenues, expenses, gains or losses	775,233	3,479,858	5,457,910	11,340,774
Capital appropriations and contributions (Note 15)	43,198,097	-	42,411,324	-
Capital gifts	1,107,996	-	104,435	-
Additions to permanent endowments	-	4,023,731	-	3,169,548
Net other revenues	44,306,093	4,023,731	42,515,759	3,169,548
Increase in net position	45,081,326	7,503,589	47,973,669	14,510,322
Net position - beginning of year (Note 1S.)	621,602,796	106,986,067	713,735,127	92,475,745
Net position - end of year	$ 666,684,122	$ 114,489,656	$ 761,708,796	$ 106,986,067

The accompanying Notes to Financial Statements are an integral part of this statement.

JAMES MADISON UNIVERSITY
STATEMENT OF CASH FLOWS
For the year ended June 30, 2015 (with comparative information for the year ended June 30, 2014)

	2015	2014
Cash flows from operating activities:		
Student tuition and fees	$ 193,011,810	$ 177,185,743
Grants and contracts	24,198,880	28,222,240
Auxiliary enterprises	172,456,640	161,501,322
Other receipts	4,339,187	3,392,715
Payments for compensation and benefits	(252,418,882)	(235,225,167)
Payments for services, supplies and utilities	(140,536,519)	(138,986,177)
Payments for scholarships and fellowships	(10,372,523)	(9,759,658)
Payments for non-capitalized plant improvements and equipment	(24,931,459)	(24,999,068)
Loans issued to students	(497,763)	(502,121)
Collections of loans from students	477,216	482,102
Net cash used by operating activities	(34,273,413)	(38,688,069)
Cash flows from noncapital financing activities:		
State appropriations	82,307,046	82,190,555
Nonoperating grants and contracts	11,781,919	10,697,170
Payment to the Commonwealth	(2,890,082)	(2,890,082)
Loans issued to students and employees	(8,525)	(3,625)
Collections of loans from students and employees	9,125	3,520
Gifts and grants for other than capital purposes	7,226	847,606
Agency receipts	112,017,494	104,997,405
Agency payments	(112,009,985)	(103,188,980)
Net cash provided by noncapital financing activities	91,214,218	92,653,569
Cash flows from capital and related financing activities:		
Capital appropriations and contributions	42,295,157	51,138,411
Proceeds from capital debt	56,956,087	49,979,361
Proceeds from sale of capital assets	52,768	53,430
Capital gifts	958,451	
Purchase of capital assets	(120,017,226)	(83,850,792)
Principal paid on capital debt, leases, and installments	(12,881,257)	(11,574,326)
Interest paid on capital debt, leases, and installments	(11,079,656)	(9,202,141)
Net cash used by capital financing activities	(43,715,676)	(3,456,057)
Cash flows from investing activities:		
Interest on investments	45,547	98,060
Interest on cash management pools	730,989	1,134,477
Net cash provided by investing activities	776,536	1,232,537
Net increase in cash	14,001,665	51,741,980
Cash and cash equivalents - beginning of the year	175,824,429	124,082,449
Cash and cash equivalents - end of the year	$ 189,826,094	$ 175,824,429

JAMES MADISON UNIVERSITY
STATEMENT OF CASH FLOWS
For the year ended June 30, 2015 (with comparative information for the year ended June 30, 2014)

	2015	2014
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss	$ (74,496,820)	$ (76,926,240)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation expense	37,035,401	35,036,678
Pension expense	(2,021,289)	-
Changes in assets and liabilities:		
Receivables, net	174,883	619,831
Due from the Commonwealth	-	177,302
Prepaid expenses	(281,581)	1,773,297
Inventory	(119,579)	60,151
Notes receivable, net	(30,814)	(8,113)
Accounts payable and accrued expenses	1,848,491	1,323,289
Unearned revenue	2,319,992	(1,092,650)
Advance from Treasurer of Virginia	(50,000)	-
Accrued compensated absences	199,226	602,752
Accrued retirement plan	1,139,941	(247,929)
Federal loan programs contributions refundable	8,736	(6,437)
Net cash used by operating activities	$ (34,273,413)	$ (38,688,069)
NON-CASH INVESTING, NONCAPITAL FINANCING, AND CAPITAL AND RELATED FINANCING TRANSACTIONS:		
Gift of capital assets	$ 149,545	$ 104,435
Amortization of bond premium/discount and gain/loss on debt refinancing	$ (1,629,926)	$ (767,451)
Capitalization of interest revenue and expense, net	$ (2,789,538)	$ (413,863)
Change in fair value of investments recognized as a component of interest income	$ 2,134	$ 68,623
Loss on disposal of capital assets	$ (9,619,053)	$ (1,354,212)

The accompanying Notes to Financial Statements are an integral part of this statement.

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NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The University is a comprehensive university that is part of the Commonwealth's statewide system of public higher education. The University's Board of Visitors, appointed by the Governor, is responsible for overseeing governance of the University. A separate report is prepared for the Commonwealth, which includes all agencies, higher education institutions, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. The University is a component unit of the Commonwealth and is included in the basic financial statements of the Commonwealth.

In accordance with Governmental Accounting Standards Board (GASB) Statement 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34*, the James Madison University Foundation, Inc. is included as a component unit of the University. The Foundation is a legally separate, tax-exempt organization formed to promote the achievements and further the aims and purposes of the University. The Foundation accomplishes its purposes through fundraising and funds management efforts that benefit the University and its programs. The 20-member board of the Foundation is self-perpetuating and consists of friends and supporters of the University. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources or income thereon that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the University, the Foundation is considered a component unit of the University and is discretely presented in the financial statements.

During the year ended June 30, 2015, the Foundation distributed $7,331,397 to the University for both restricted and unrestricted purposes. Separate financial statements for the Foundation can be obtained by writing the Chief Financial Officer, JMU Foundation, Inc., MSC 8501, Harrisonburg, Virginia 22807.

B. Financial Statement Presentation

The financial statements have been prepared in accordance with GASB Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and GASB Statement 35, *Basic Financial Statements and Management's Discussion and Analysis of Public College and Universities*.

GASB Statements 34 and 35 standards are designed to provide financial information that responds to the needs of three groups of primary users of general-purpose external financial reports: the citizenry, legislative and oversight bodies, and investors and creditors. Under this guidance, the University is required to include a management's discussion and analysis (MD&A), basic financial statements, and notes to the financial statements.

The following GASB statements of standards became effective in fiscal year 2015: Statement 68, *Accounting and Financial Reporting for Pensions – an amendment of statement 27,* Statement 69, *Government Combinations and Disposals of Government Operations*, and Statement 71, *Pension Transition for Contributions made Subsequent to the Measurement Date – an amendment of Statement 68.* Statement 68 improves information provided by state and local governments whose employees are provided pensions. Statement 68 requires government employers that sponsor defined benefit plans to recognize a net pension liability (unfunded accrued liability) in their statement of net position. The university recognized its proportionate share of the Virginia Retirement System's net pension liability in the amount of $128.0 million for the fiscal year ending June 30, 2015. Additionally, Statement 68 resulted in a net reduction in the unrestricted net position of $140.1 million. Statement 68 also established standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenditures related to pensions. Pension expense will now be based on the net pension liability change between reporting dates, with some sources of the changes recognized immediately in expense and other amortized over years. Statement 71 amended Statement 68 to allow the reporting government to recognize a beginning deferred outflow of resources only for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability but before the start of the government's fiscal year when it is not practical to determine the amounts of all applicable deferred inflows of resources and deferred outflows of resources related to pensions. The University recognized deferred outflows of $12.5 million and deferred inflows of $22.6 million for the Virginia Retirement System's Defined Benefit pension plan for the fiscal year ending June 30, 2015. Additionally Statement 68 requires an extensive footnote disclosure as well as required Supplementary Information. See Note 11 for additional pension information. Statement 69 established accounting and financial reporting standards related to government combination and disposals of government operations. The University had no activities that would be reportable under the conditions in this statement.

The Foundation is a private, non-profit organization that reports under Financial Accounting Standards Board (FASB) standards, including FASB Statement 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition and presentation features. No modifications have been made to the Foundation's financial information in the University's financial reporting entity for these differences.

C. Basis of Accounting

For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. All significant intra-agency transactions have been eliminated.

D. Cash Equivalents and Investments

In accordance with GASB Statement 9, *Reporting Cash Flows of Proprietary and Non-expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, the University considers all highly liquid investments with an original maturity of 90 days or less to be cash equivalents.

In accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, purchased investments, interest-bearing temporary investments classified with cash, and investments received as gifts are recorded at fair value. All investment income, including changes in the fair value of investments (unrealized gains and losses), is reported as non-operating revenue in the Statement of Revenues, Expenses, and Changes in Net Position.

E. Capital Assets

Capital assets consisting of land, buildings, infrastructure, computer software and equipment are stated at cost at date of acquisition, or fair market value at date of donation for gifts. Library materials are valued using published average prices for library acquisitions. The University capitalizes construction costs that have a value or cost in excess of $200,000 at the date of acquisition. Renovation costs are capitalized when expenses total more than $200,000, the asset value significantly increases, or the useful life is significantly extended. Routine repairs and maintenance are charged to operating expense.

Equipment is capitalized when the unit acquisition cost is $5,000 or greater and the estimated useful life is more than two years. Computer software is capitalized when the unit acquisition or development costs are $100,000 or greater and the estimated useful life is more than two years. Expenses related to construction are capitalized at actual cost as they are incurred (construction-in-progress).

Construction period interest cost in excess of earning associated with related debt proceeds is capitalized as a component of the final asset. The University incurred and capitalized net interest expense related to the construction of capital assets totaling $413,863 for this fiscal year.

Collections of works of art and historical treasures are capitalized at cost or fair market value at the date of donation. These collections are considered inexhaustible and therefore are not depreciated.

Depreciation is computed using the straight-line method over the estimated useful life of the asset and is not allocated to the functional expense categories. Useful lives by asset categories are listed below:

Buildings	25-50 years
Other improvements and infrastructure	20 years
Equipment	5-20 years
Computer software	5 years
Library material	5 years

F. Prepaid Expenses

The University has recorded certain expenses for future fiscal years that were paid in advance as of June 30, 2015. Payments of expenses that extend beyond fiscal year 2016 are classified as a non-current asset. Prepaid expenses consist primarily of the supplemental retirement obligation (see Note 10), information technology maintenance contracts, property leases, and insurance.

G. Inventories

Inventories are valued at the lower of cost (generally determined on the first-in, first-out method) or market and consist primarily of expendable supplies held for consumption.

H. Non-current Cash and Investments

Cash and investments that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital and other non-current assets are classified as non-current assets in the Statement of Net Position. Assets that will be used to liquidate current liabilities, including capital project liabilities that are expected to be paid within one year, are classified as current assets.

I. Unearned Revenue

Unearned revenue represents revenues collected but not earned as of June 30. This consists primarily of revenue for student tuition and certain auxiliary activities accrued in advance of the semester, and advance payments on grants and contracts.

J. Long-term Debt and Debt Issue Costs

Long-term debt on the Statement of Net Position is reported net of related discounts and premiums, which are amortized over the life of the debt. Debt issuance costs are expensed as non-operating expenses.

K. Accrued Compensated Absences

The amount of leave earned, but not taken by non-faculty salaried employees is recorded as a liability on the Statement of Net Position. The amount reflects, as of June 30, all unused vacation leave, sabbatical leave, and the amount payable upon termination under the Commonwealth's sick leave payout policy. The applicable share of employer-related taxes payable on the eventual termination payments is also included.

L. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Virginia Retirement System (VRS) State Employee Retirement Plan and the Virginia Law Officers' System (VaLORS) Retirement Plan; and the additions to/deductions from the VRS State Employee Retirement Plan's and the VaLORS Retirement Plan's net fiduciary position have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. See Note 11 for more information about pension plans.

M. Federal Financial Assistance Programs

The University participates in federally funded Pell Grants, Supplemental Educational Opportunity Grants, and federal work-study and Perkins loans programs. Federal programs are audited in accordance with the Single Audit Act Amendments of 1996, the Office of Management and Budget Revised Circular A-133, *Audit of States, Local Governments and Non-Profit Organizations*, and the *Compliance Supplement*.

N. Deferred Inflows and Outflows of Resources

Deferred outflows of resources are defined as the consumption of net assets applicable to a future reporting period. The deferred outflows of resources have a positive effect on net position, similar to assets.

Deferred inflows of resources are defined as the acquisition of net assets applicable to a future reporting period. The deferred inflows of resources have a negative effect on net position, similar to liabilities.

O. Net Position

GASB Statement 63 requires that the Statement of Net Position report the difference between assets, deferred outflows, liabilities and deferred inflows as net position, not net assets or fund balances. Net position is classified as net investment in capital assets, restricted, and unrestricted. "Net investment in capital assets" consists of capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction, or improvement of those assets. Net position is reported as restricted when constraints on the net asset/deferral use are either externally imposed by creditors, grantors, or contributors or imposed by law. Unrestricted net position consists of net assets/deferrals that do not meet the definitions above. When an expense is incurred that can be paid using either restricted or unrestricted resources, the University's policy is to use restricted resources first, then unrestricted resources as needed.

P. Revenue and Expense Classifications

Operating revenues include activities that have the characteristics of exchange transactions, such as: (1) student tuition and fees, net of scholarship discounts and allowances; (2) sales and services of auxiliary enterprises, net of scholarship allowances; and (3) federal, state, and non-governmental grants and contracts.

Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts, and other revenue sources that are defined as non-operating revenues by GASB Statement 9 and GASB Statement 34, such as state appropriations and investment and interest income. Federal Pell grant receipts are reported on the line item "non-operating grants and contracts" on the Statement of Revenues, Expenses, and Changes in Net Position. Pell grants are considered as non-operating because the University's administrative involvement with the grant requirements have the characteristics of a non-exchange transaction.

Non-operating expenses include interest on debt related to the purchase of capital assets, losses on the disposal of capital assets, and nongeneral fund transfer payments to the Commonwealth. All other expenses are classified as operating expenses.

Q. Scholarship Discounts and Allowances

Student tuition and fees revenues, certain auxiliary revenues, and student aid expenses, are reported net of scholarship discounts and allowances in the Statements of Revenue, Expenses, and Changes in Net Position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University and the amount that is paid by students and/or third parties making payments on the student's behalf. Scholarship discounts and allowances are reported using the alternative method as prescribed by the National Association of College and University Business Officers (NACUBO). The alternative method is a computation that calculates scholarship discounts and allowances on a University-wide basis, rather than on an individual student basis.

R. Commonwealth Equipment and Capital Project Reimbursement Programs

The Commonwealth has established several programs to provide state-supported institutions of higher education with bond proceeds for financing the acquisition and replacement of instructional and research equipment and facilities. During fiscal year 2015, funding has been provided to the University from three programs; general obligation bonds 9(b), and two programs (21st Century and Equipment Trust Fund) managed by the Virginia College Building Authority (VCBA). The VCBA issues bonds and uses the proceeds to reimburse the University and other institutions of higher education for expenses incurred in the acquisition of equipment and facilities.

The Statement of Net Position line item "Due from the Commonwealth" includes pending reimbursements at year-end from these programs, as further described in Note 4. The Statement of Revenue, Expenses, and Changes in Net Position line item "Capital appropriations and contributions" includes reimbursements during the year for the acquisition of equipment and facilities under these programs, as further described in Note 15.

S. Comparative Data

The University presents its financial information on a comparative basis. The basic financial statements include certain prior year summarized information in total, but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, the prior year information should be read in conjunction with the University's financial statements for the year ended June 30, 2014, from which the summarized information was derived. Also the summarized comparative information presented does not include the necessary adjustments related to the implementation of GASB Statement 68 for the 2014 financial statements to be comparative with the 2015 financial statements. The information needed to make these adjustments is not available for prior years.

T. Adjustment to Beginning Net Position

During fiscal year 2015, the University implemented GASB 68 *Accounting and Financial Reporting for Pensions*. The implementation required an adjustment to the July 1, 2014 net position balance, in order to record the Net Pension Liability. Prior year balances were not restated for GASB Statement 68; only the beginning balances for fiscal year 2015 were adjusted. The adjustment was calculated as follows using audited information obtained from the Virginia Retirement System (VRS):

Net Position, July 1, 2014	$761,708,796
University portion of VRS Net Pension Liability (NPL) as of June 30, 2013	(148,055,000)
University contributions made to VRS plans during fiscal year 2014	7,949,000
Adjusted Net Position, July 1, 2014	$ 621,602,796

Additional information regarding the University's participation in VRS retirement plans can be found in Note 11 of the Notes to Financial Statements section.

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

The following information is provided with respect to the university's cash, cash equivalents and investments as of June 30, 2015. The following risk disclosures are required by GASB Statement 40, *Deposit and Investment Risk Disclosures*:

- Custodial Credit Risk – The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction a government will not be able to recover the value of investment or collateral securities at are in the possession of an outside party. The university had no category 3 deposits or investments for 2015.

- Credit Risk – The risk that an issuer or other counterparty to an investment will not fulfill its obligations. This statement requires the disclosure of the credit quality ratings on any investments subject to credit risk.

- Concentration of Credit Risk – The risk of loss attributed to the magnitude of a government's investment in a single issuer. This statement requires disclosure of investments with any one issuer with more than five percent of total investments. However, investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement.

- Interest Rate Risk – The risk that interest rate changes will adversely affect the fair value of an investment. This statement requires disclosure of maturities for any investments subject to interest rate risk. The University does not have an interest rate risk policy.

- Foreign Currency Risk – The risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The University had foreign deposits of $3,472,515 in 2015.

A. Cash and Cash Equivalents

Pursuant to Section 2.2-1800, et seq., Code of Virginia, all state funds of the University are maintained by the Treasurer of Virginia, who is responsible for the collection, disbursement, custody, and investment of state funds. Except for cash held in foreign banks, cash deposits held by the University are maintained in accounts that are collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400, et seq., Code of Virginia. These amounts are insured in accordance with the banking regulations of the respective countries where the funds are maintained. In accordance with the GASB Statement 9's definition of cash and cash equivalents, cash represents cash with the Treasurer of Virginia, cash on hand, cash deposits, including certificates of deposits and temporary investments with original maturities of 90 days or less, and cash equivalents under the Commonwealth's securities lending and state non-arbitrage programs.

B. Investments

The Board of Visitors established the University's investment policy. Authorized investments are set forth in the Investment of Public Funds Act, Section 2.2-4500 through 2.2-4517, et seq., Code of Virginia. Investments fall into two groups: short-term and long-term. Short-term investments have an original maturity of over 90 days but less than or equal to one year. Long-term investments have an original maturity greater than one year.

Cash and cash equivalents:	
Cash with the Treasurer of Virginia	$ 129,581,542
Cash on hand and deposits with financial institutions (including money market and certificates of deposit)	24,496,205
Collateral held for securities lending	3,819,556
Cash equivalents with the Treasurer of Virginia	69,184
Cash equivalents with the Bank of New York	35,679,163
Total	$ 193,645,650
Investments:	
Collateral held for securities lending (short-term)	138,245
Investments not with the Treasurer of Virginia	2,136,464
Total	$ 2,274,709

For 2015, investments not with Treasurer of Virginia include $607,578 in unrated mutual funds.

C. James Madison University Foundation Cash and Investments

The following information is provided with respect to the Foundation's cash and cash equivalents and investments at June 30, 2015. The Foundation considers cash in demand deposit accounts and short-term certificates of deposit to be cash equivalents. The balances in these accounts are subject to electronic transfer for investment purposes and at times exceed federally insured limits. However, the Foundation does not believe it is subject to any significant credit risk as a result of these deposits.

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in the change in unrestricted net position unless the income or loss is restricted by donor or law.

The Investment Committee of the Foundation's Board of Directors establishes the investment policies, objectives, and guidelines. The major portions of the investments are maintained in a portfolio managed by the Foundations' investment advisors. As prescribed by FASB ASC 820, investments are placed into one of three categories based on the inputs used in valuation techniques. As of June 30, 2015 the foundation held investments totaling $38,959,065, $11,426,333, and $46,959,109 in category 1, 2, and 3, respectively. Life insurance policies are not categorized as to credit risk. The Foundation's investments by type of security are as follows:

	Fair Value	Cost
Cash and cash equivalents	$ 10,066,701	$ 10,066,701
Common stock	8,336,394	6,178,167
Mutual funds	20,555,970	20,213,686
Hedge funds	57,887,725	55,065,839
Life insurance policies	497,717	-
Total	$ 97,344,507	$ 91,524,393

D. Securities Lending Transactions

GASB Statement 28, *Accounting and Financial Reporting for Securities Lending Transactions*, establishes accounting and financial reporting standards for security lending transactions. In these transactions, governmental entities transfer securities to broker-dealers and other entities for collateral and simultaneously agree to return the collateral for the same securities in the future.

The investments under securities lending (reported as either "cash equivalents" or "short-term investments") and the securities lending transactions reported on the financial statements represent the University's allocated share of securities received for securities lending transactions held in the General Account of the Commonwealth. The Commonwealth's policy is to record unrealized gains and losses in the General Fund in the Commonwealth's basic financial statements. When gains and losses are realized, the actual gains and losses are recorded by the affected agencies. Information related to the credit risk of these investments and securities lending transactions held in the General Account is available on a statewide basis in the Commonwealth of Virginia's CAFR.

3. ACCOUNTS AND CONTRIBUTIONS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2015:

Student tuition and fees	$	1,875,490
Auxiliary enterprises		1,185,141
Federal, state, and non-governmental grants and contracts		3,100,921
Other activities		382,157
Total		6,543,709
Less: allowance for doubtful accounts		734,903
Net accounts receivable	$	5,808,806

The Foundation's contributions receivable consisted of the following at June 30, 2015:

Due in less than one year	$	1,577,055
Due between one and five years		3,402,740
Due in more than five years		1,302,919
Total		6,282,714
Less: present value discount (1% - 6%)		295,762
Less: allowance for doubtful accounts		136,969
Net contributions receivable	$	5,849,983

4. DUE FROM THE COMMONWEALTH

Due from the Commonwealth consisted of the following at June 30, 2015:

Treasury programs reimbursement due:		
Equipment Trust Fund	$	1,861,748
21st Century		5,403,895
Appropriations available - Financial Aid		8,404
Total	$	7,274,047

5. CAPITAL ASSETS

A summary of changes in the various capital asset categories for the years ending June 30, 2015 is presented as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Non-depreciable capital assets:				
Land	$ 77,944,328	$ 5,069,998	$ -	$ 83,014,326
Inexhaustible artwork and historical treasures	2,155,919	100,129	-	2,256,048
Construction-in-progress	36,872,614	115,204,965	26,826,561	125,251,018
Total non-depreciable capital assets	116,972,861	120,375,092	26,826,561	210,521,392
Depreciable capital assets:				
Buildings	884,303,960	11,748,136	13,361,224	882,690,872
Infrastructure	79,827,248	7,438,662	327,154	86,938,756
Computer Software	11,638,990	-	701,512	10,937,478
Equipment	72,758,865	6,564,916	2,566,673	76,757,108
Other improvements	53,376,360	6,418,800	149,856	59,645,304
Library materials	51,863,337	2,745,212	520,082	54,088,467
Total depreciable capital assets	1,153,768,760	34,915,726	17,626,501	1,171,057,985
Less accumulated depreciation for:				
Buildings	234,362,259	20,955,679	4,051,758	251,266,180
Infrastructure	32,892,037	3,533,357	153,506	36,271,888
Computer Software	7,945,039	1,312,653	527,194	8,730,498
Equipment	41,059,473	5,776,260	2,341,501	44,494,232
Other Improvements	15,456,626	3,035,393	72,592	18,419,427
Library materials	44,629,093	2,422,059	520,082	46,531,070
Total accumulated depreciation	376,344,527	37,035,401	7,666,633	405,713,295
Depreciable capital assets, net	777,424,233	(2,119,675)	9,959,868	765,344,690
Total capital assets, net	$ 894,397,094	$ 118,255,417	$ 36,786,429	$ 975,866,082

The Foundation's net capital assets consist of $4,990,552 in property and equipment, and $100,591 in collections of historical artifacts for the year ending June 30, 2015.

6. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2015:

Employee salaries, wages, and fringe benefits payable	$ 30,192,725
Vendors and suppliers accounts payable	3,918,782
Capital projects accounts and retainage payable	15,116,437
Accrued interest payable on bond debt	3,217,696
Total accounts payable and accrued expenses	$ 52,445,640

7. NON-CURRENT LIABILITIES

The University's non-current liabilities consist of long-term debt (further described in Note 8), accrued supplemental retirement plan (further described in Note 10), and other non-current liabilities. A summary of changes in non-current liabilities for the years ending June 30, 2015 is presented as follows:

Long-term debt:	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Non-current Portion
Revenue bonds	$ 141,055,000	$ 62,990,000	$ 23,435,000	$ 180,610,000	$ 9,320,000	$ 171,290,000
General obligation bonds	104,134,634	15,748,381	21,806,257	98,076,758	6,408,315	91,668,443
Bond premium	16,605,236	15,100,948	2,594,320	29,111,864	2,294,594	26,817,270
Total long-term debt	261,794,870	93,839,329	47,835,577	307,798,622	18,022,909	289,775,713
Accrued retirement plan	3,764,597	3,048,628	1,908,687	4,904,538	-	4,904,538
Accrued compensated absences	5,366,831	3,291,950	3,092,724	5,566,057	3,228,622	2,337,435
Federal loan program contributions	2,328,196	8,736	-	2,336,932	-	2,336,932
Total long-term liabilities	$ 273,254,494	$ 100,188,643	$ 52,836,988	$ 320,606,149	$ 21,251,531	$ 299,354,618

8. LONG-TERM DEBT

The University has issued two categories of bonds pursuant to Section 9 of Article X of the Constitution of Virginia. Section 9(d) bonds are revenue bonds, which are limited obligations of the University payable exclusively from pledged general revenues and are not debt of the Commonwealth, legally, morally, or otherwise. Pledged General Fund revenues include General Fund appropriations, tuition and fees, auxiliary enterprise revenues, and other revenues not required by law to be used for another purpose. The University issued 9(d) bonds directly through underwriters and participates in the Public Higher Education Financing Program (Pooled Bond Program) created by the Virginia General Assembly in 1996. Through the Pooled Bond Program, the Virginia College Building Authority (VCBA) issues 9(d) bonds and uses the proceeds to purchase debt obligations (notes) of the University and various other institutions of higher education. The University's general revenue also secures these notes.

Section 9(c) bonds are general obligation bonds issued by the Commonwealth on behalf of the University, which are secured by the net revenues of the completed project and the full faith, credit, and taxing power of the Commonwealth.

Description	Interest Rates (%)	Maturity	2015
Revenue bonds:			
Dormitory, Series 2007B	4.00 – 4.50	2019	$ 3,985,000
Parking, Series 2006A	3.00 – 5.00	2027	2,645,000
Acq of Land, Athletics, Series 2006A	3.00 – 5.00	2027	1,220,000
Property acquisition, Series 2007A	4.50 – 5.00	2028	2,980,000
Grace St. acquisition, Series 2010A	3.75 – 5.50	2031	7,460,000
Multipurpose Recreation Fields, Series 2009A	2.25– 5.00	2029	5,400,000
Softball/Baseball Complex, Series 2009A	2.25– 5.00	2029	5,190,000
Renov/Expand Athletics/Recreation 2009B	4.25 – 5.00	2030	22,885,000
Renov/Expand Athletics/Recreation 2010A	3.75 – 5.00	2031	8,270,000
Renov/Expand Bridgeforth Stadium 2009B	4.25 – 5.00	2030	35,865,000
RMH property acquisitions, Series 2010A	3.75 – 5.50	2031	6,635,000
Construct Student Health Ctr, 2012B	3.00 – 5.00	2033	10,030,000
Renovate West Wing RMH-Dining, 2012B	3.00 – 5.00	2033	5,055,000
Renov/Expand Recreation Center, 2014A	2.00 – 5.00	2035	48,175,000
Parking, Series 2014B	3.00 – 5.00	2024	5,345,000
Student Center, 2014B	3.00 – 5.00	2020	3,275,000
Acq of Land, Athletics, Series 2014B	3.00 – 5.00	2024	1,480,000
Property acquisition, Series 2014B	3.00 – 5.00	2026	4,715,000
Total revenue bonds			$180,610,000
General obligation revenue bonds:			
Dormitory and dining hall:			
Series 2006B	4.00 – 5.00	2016	$ 285,000
Series 2007B	5.00	2017	2,115,000
Series 2008B	5.00	2018	2,600,000
Series 2009C	3.00 – 4.00	2022	2,321,279
Series 2009D	5.00	2022	1,750,000
Series 2010A	2.00 – 5.00	2030	12,060,000
Series 2013B	4.00 – 5.00	2026	11,052,843
Series 2014A	2.00 – 5.00	2034	45,350,000
Series 2014B	2.00 – 5.00	2020	4,794,255
Series 2015B	4.00 – 5.00	2028	15,748,381
Total general obligation revenue bonds			98,076,758
Total bonds payable			$278,686,758

Long-term debt as of June 30, 2015 matures as follows:

	Principal	Interest
2016	$ 15,728,315	$ 12,565,934
2017	16,401,632	11,878,004
2018	15,526,746	11,091,862
2019	16,115,589	10,344,388
2020	15,751,381	9,594,296
2021-2025	81,028,319	36,795,247
2026-2030	83,869,776	16,942,957
2031-2035	34,265,000	3,587,100
Total	$ 278,686,758	$ 112,799,788

The Foundation's long-term debt consists of $2,141,111 outstanding at June 30, 2015, in notes payables to Bank of America at a fixed interest rate of 4.85%, and maturing through fiscal year 2029. The note is secured by a deed of trust on real estate acquired with the proceeds of the note.

9. DEBT DEFEASANCE

A. Deferral on Debt Defeasance

In accordance with GASB Statement 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities,* as amended by GASB Statement 65 *Items Previously Reported as Assets and Liabilities*, for current refundings and advance refundings resulting in defeasance of debt, the difference between the new and old debt (accounting gain or loss) is deferred and amortized as a component of interest expense. For each of the current or advance refundings noted below, the accounting gain or loss is amortized to interest expense over the life of the new debt. A summary of changes in deferred outflows and deferred inflows as a result of debt refundings for the years ending June 30, 2015 is presented as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Deferred Outflows	1,831,849	3,291,749	242,985	4,880,613
Deferred Inflows	273,166	-	66,983	206,183

During 2015, the Virginia College Building Authority, on behalf of the University, issued $14,815,000 of Revenue Refunding Bonds, Series 2014B, with interest rates of 3.0 percent – 5.0 percent. The bonds, issued at a premium of $2,365,271, were used to refund outstanding Revenue Bonds: $5,890,000 of Series 2004B with an interest rate of 4.0 percent – 5.0 percent, $5,060,000 of Series 2006A with an interest rate of 5.0 percent, and $4,980,000 of Series 2007A with an interest rate of 4.5 percent - 5.0 percent. The advance refunding resulted in the recognition of a deferred accounting loss of $866,096 in fiscal year 2015, which is being amortized to interest expense over the life of the new debt. The University in effect reduced its aggregate debt service obligation by $1,433,100 over the next 11 years and obtained an economic gain (equal to the difference between the present values of the old and new debt service payments) of $1,299,837, discounted at a rate of 2.178 percent.

During 2015, the Treasury Board, on behalf of the University, issued $15,748,381 of General Obligation Bonds, Series 2015B, with interest rates of 4.0 percent – 5.0 percent. The bonds, issued at a premium of $3,588,906, were used to refund outstanding General Obligation Bonds: $4,410,000 of Series 2007B with an interest rate of 4.0 percent – 4.5 percent, and $12,020,000 of Series 2008B with an interest rate of 5.0 percent. The advance refunding resulted in the recognition of a deferred accounting loss of $2,425,653 in fiscal year 2015, which is being amortized to interest expense over the life of the new debt. The University in effect reduced its aggregate debt service obligation by $1,247,709 over the next 13 years and obtained an economic gain (equal to the difference between the present values of the old and new debt service payments) of $1,187,198, discounted at a rate of 2.129 percent.

For financial reporting purposes, the bonds designated above as being refunded are considered to be defeased and have been removed from the non-current liabilities line in the Statement of Net Position. Any related assets in escrow have similarly been excluded.

B. Long-term Debt Defeasance

In prior years, in accordance with GASB Statement 7, *Advance Refundings Resulting in the Defeasance of Debt*, the University excluded from its financial statements the assets in escrow and the Section 9(c) or 9(d) bonds payable that were defeased "in-substance." As of June 30, 2015, $39,670,000 of the bonds outstanding were considered defeased.

10. SUPPLEMENTAL RETIREMENT PLAN

Effective January 1, 1997, the University established a Supplemental Retirement Plan for tenured faculty members. The plan was designed to provide flexibility in the allocation of faculty positions. The plan is a qualified plan within the meaning of section 401(c) of the Internal Revenue Code of 1986 (the Code) and is a governmental plan within the meaning of section 414(d) of the Code. Since it is a governmental plan, the plan is not subject to the Employee Retirement Income Security Act of 1974 as amended. Since inception, 248 faculty members have elected to enroll in the plan. As of June 30, 2015, 76 participants remain, including 21 new participants who retired under this plan during fiscal year 2015. In order to satisfy IRS requirements, a trust fund has been established as means to make the payments to the plan participants. The University prepaid $1,908,687 of the fiscal year 2016-plan contribution in 2015. The plan payment schedule is as follows:

Year Ending June 30,	Supplemental Plan Obligations	
2016	$	-
2017		1,754,938
2018		1,375,981
2019		932,632
2020		648,616
2021		192,371
Total	$	4,904,538

11. RETIREMENT PLANS

A. Virginia Retirement System (Defined Benefit Retirement Plans)

All full-time, salaried permanent employees of state agencies are automatically covered by the VRS State Employee Retirement Plan or the VaLORS Retirement Plan upon employment, unless they are eligible and choose to enroll in the optional retirement program described in section B of Note 11. These plans are single-employer plans treated as cost-sharing plans for financial reporting purposes. The plans are administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the Code of Virginia, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

The System administers three different benefit structures for covered employees in the VRS State Employee Retirement Plan – Plan 1, Plan 2, and, Hybrid and two different benefit structures for covered employees in the VaLORS Retirement Plan – Plan 1 and Plan 2. Each of these benefit structures has a different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member’s age, creditable	**About Plan 2** Plan 2 is a defined benefit plan. The retirement benefit is based on a member’s age, creditable	**About the Hybrid Retirement Plan** The Hybrid Retirement Plan combines the features of a

service and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.	service and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.	defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (see "Eligible Members") • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.
Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013. **Hybrid Opt-In Election** VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.	**Eligible Members** Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013. **Hybrid Opt-In Election** Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.	**Eligible Members** Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes: • State employees* • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014 ***Non-Eligible Members** Some employees are not eligible to participate in the Hybrid Retirement Plan. They

The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.	The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.	include: • Members of the Virginia Law Officers' Retirement System (VaLORS) Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.
Retirement Contributions State employees, excluding state elected officials, and optional retirement plan participants, contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.	**Retirement Contributions** State employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction.	**Retirement Contributions** A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.
Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may	**Creditable Service** Same as Plan 1.	**Creditable Service** **<u>Defined Benefit Component:</u>** Under the defined benefit component of the plan, creditable service includes active service. Members earn

include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.		creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit. **<u>Defined Contributions Component:</u>** Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.
Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.	**Vesting** Same as Plan 1.	**Vesting** **<u>Defined Benefit Component:</u>** Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component. **<u>Defined Contributions Component:</u>** Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the

		employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make. Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.
Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.	**Calculating the Benefit** See definition under Plan 1.	**Calculating the Benefit** **<u>Defined Benefit Component:</u>** See definition under Plan 1 **<u>Defined Contribution Component:</u>** The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.
Average Final	**Average Final Compensation**	**Average Final**

Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	**Compensation** Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier **VRS:** The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%. **VaLORS:** The retirement multiplier for VaLORS employees is 1.70% or 2.00%.	**Service Retirement Multiplier** **VRS:** Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013. **VaLORS:** The retirement multiplier for VaLORS employees is 2.00%.	**Service Retirement Multiplier** **<u>Defined Benefit Component:</u>** **VRS:** The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. **VaLORS:** Not applicable. **<u>Defined Contribution Component:</u>** Not applicable.
Normal Retirement Age **VRS:** Age 65. **VaLORS:** Age 60.	**Normal Retirement Age** **VRS:** Normal Social Security retirement age. **VaLORS:** Same as Plan 1.	**Normal Retirement Age** **<u>Defined Benefit Component:</u>** **VRS:** Same as Plan 2. **VaLORS:** Not applicable. **<u>Defined Contribution Component:</u>** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Unreduced Retirement Eligibility **VRS:** Age 65 with at least five years (60 months) of creditable service or at age 50 with at least	**Earliest Unreduced Retirement Eligibility** **VRS:** Normal Social Security retirement age with at least five years (60 months) of creditable	**Earliest Unreduced Retirement Eligibility** **<u>Defined Benefit Component:</u>** **VRS:** Normal Social Security retirement age and have at least

30 years of creditable service. **VaLORS:** Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.	service or when their age and service equal 90. **VaLORS:** Same as Plan 1.	five years (60 months) of creditable service or when their age and service equal 90. **VaLORS:** Not applicable. **<u>Defined Contribution Component:</u>** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Reduced Retirement Eligibility **VRS:** Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service. **VaLORS:** 50 with at least five years of creditable service.	**Earliest Reduced Retirement Eligibility** **VRS:** Age 60 with at least five years (60 months) of creditable service. **VaLORS:** Same as Plan 1.	**Earliest Unreduced Retirement Eligibility** **<u>Defined Benefit Component:</u>** **VRS:** Age Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service. **VaLORS:** Not applicable. **<u>Defined Contribution Component:</u>** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%. **<u>Eligibility:</u>** For members who retire with an unreduced benefit or with a reduced benefit with at least 20	**Cost-of-Living Adjustment (COLA) in Retirement** The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%. **<u>Eligibility:</u>** Same as Plan 1	**Cost-of-Living Adjustment (COLA) in Retirement** **<u>Defined Benefit Component:</u>** Same as Plan 2. **<u>Defined Contribution Component:</u>** Not applicable. **<u>Eligibility:</u>** Same as Plan 1 and Plan 2.

years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date. **<u>Exceptions to COLA Effective Dates:</u>** The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances: • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member Is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.	**<u>Exceptions to COLA Effective Dates:</u>** Same as Plan 1	**<u>Exceptions to COLA Effective Dates:</u>** Same as Plan 1 and Plan 2.

Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted. Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.	**Disability Coverage** Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted. Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.	**Disability Coverage** State employees (including Plan 1 and Plan 2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VSDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.
Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.	**Purchase of Prior Service** Same as Plan 1.	**Purchase of Prior Service** **Defined Benefit Component:** Same as Plan 1, with the following exceptions: • Hybrid Retirement Plan members are ineligible for ported service. • The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation. • Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost./ After that on-year period, the rate for most categories of service will change to actuarial cost. **Defined Contribution Component:** Not applicable.

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, the 5.00% member contribution was paid by the employer. Beginning July 1, 2012 state employees were required to pay the 5.00% member contribution and the employer was required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. Each state agency's contractually required contribution rate for the year ended June 30, 2015 was 12.33% of covered employee compensation for employees in the VRS State Employee Retirement Plan and 17.67% of covered employee compensation for employees in the VaLORS Retirement Plan. These rates were based on an actuarially determined rate from an actuarial valuation as of June 30, 3013. The actuarial rate for the VRS State Employee Retirement Plan was 15.80% and the actuarial rate for VaLORS Retirement Plan was 21.06%. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employee during the year, with an additional amount to finance any unfunded accrued liability. Based on the provisions of §51.1-145 of the *Code of Virginia*, as amended, the contributions for the VRS State Employee Retirement Plan were funded at 78.02% of the actuarial rate and the contributions for the VaLORS Retirement Plan were funded at 83.88% of the actuarial rate for the year ended June 30, 2015. Contributions from the University to the VRS State Employee Retirement Plan were $10,894,300 and $7,517,097 for the years ended June 30, 2015 and June 30, 2014, respectively. Contributions from the University to the VaLORS Retirement Plan were $243,989 and $201,726 for the years ended June 30, 2015 and June 30, 2014, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the University reported a liability of $125,362,000 for its proportionate share of the VRS State Employee Retirement Plan Net Pension Liability and a liability of $2,620,000 for its proportionate share of the VaLORS Retirement Plan Net Pension Liability. The Net Pension Liability was measured as of June 30, 2014 and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. The University's proportion of the Net Pension Liability was based on the University's actuarially determined employer contributions to the pension plan for the year ended June 30, 2014 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2014, the University's proportion of the VRS State Employee Retirement Plan was 2.24% as compared to 2.21% at June 30, 2013. At June 30, 2014, the University's proportion of the VaLORS Retirement Plan was .39% as compared to .38% at June 30, 2013.

For the year ended June 30, 2015, the University recognized pension expense of $8,855,000 for the VRS State Employee Retirement Plan and $262,000 for the VaLORS Retirement Plan. Since there was a change in proportionate share between June 30, 2013 and June 30, 2014, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2015, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	State employee plan		VaLORs plan	
	Deferred outflows of resources	Deferred inflows of resources	Deferred outflows of resources	Deferred inflows of resources
Net difference between projected and actual rearning on pension plan investments	$ -	$ 22,376,000	$ -	$ 271,000
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,342,000	-	64,000	-
Employer contributions subsequent to the measurement date	10,894,300	-	243,989	-
Total deferred outflows/inflows related to pensions	$ 12,236,300	$ 22,376,000	$ 307,989	$ 271,000

$11,138,289 reported as deferred outflows of resources related to pensions resulting from the University's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	State employee plan	VaLORs plan
2016	$ (5,128,000)	$ (44,000)
2017	(5,128,000)	(44,000)
2018	(5,184,000)	(52,000)
2019	(5,594,000)	(67,000)
Total	$ (21,034,000)	$ (207,000)

Actuarial Assumptions (State Employee Plan)

The total pension liability for the VRS State Employee Retirement Plan was based on an actuarial valuation as of June 30, 2013, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

Inflation	2.5 percent
Salary increases, including inflation	3.5 percent – 5.35 percent
Investment rate of return	7.0 percent, net of pension plan investment expense, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return

assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates:

Pre-Retirement:
RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 2 years and females were set back 3 years.

Post-Retirement:
RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with females set back 1 year.

Post-Disablement:
RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of withdrawals for less than 10 years of service
- Decrease in rates of male disability retirement
- Reduce rates of salary increase by 0.25% per year

Actuarial Assumptions (VaLORS Plan)

The total pension liability for the VaLORS Retirement Plan was based on an actuarial valuation as of June 30, 2013, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

Inflation	2.5 percent
Salary increases, including inflation	3.5 percent – 5.35 percent
Investment rate of return	7.0 percent, net of pension plan investment expense, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates:

Pre-Retirement:
RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 5 years and females were set back 3 years.

Post-Retirement:
RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with females set back 1 year.

Post-Disablement:
RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

- Update mortality table
- Adjustments to the rates of service retirement
- Decrease in rates of withdrawals for females under 10 years of service
- Increase in rates of disability
- Decrease service related disability rate from 60% to 50%

Net Pension Liability

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB Statement No. 67, less that system's fiduciary net position. As of June 30, 2014, NPL amounts for the VRS State Employee Retirement Plan and the VaLORS Retirement Plan are as follows (amounts expressed in thousands):

	State Employee Plan	VaLORs Plan
Total Pension Liability	$ 21,766,933	$ 1,824,577
Plan Fiduciary Net Position	16,168,535	1,150,450
Employer' Net Pension Liability (Asset)	$ 5,598,398	$ 674,127
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.28%	63.05%

The total pension liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net pension liability is disclosed in accordance with the requirements of GASB Statement No. 67 in the System's notes to the financial statements and required supplementary information.

Long-Term Expected Rate of Return

The long-term expected rate of return on pension System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
U.S. Equity	19.50%	6.46%	1.26%
Developed Non U.S Equity	16.50%	6.28%	1.04%
Emerging Market Equity	6.00%	10.00%	0.60%
Fixed Income	15.00%	0.09%	0.01%
Emerging Debt	3.00%	3.51%	0.11%
Rate Sensitive Credit	4.50%	3.51%	0.16%
Non Rate Sensitive Credit	4.50%	5.00%	0.23%
Convertibles	3.00%	4.81%	0.14%
Public Real Estate	2.25%	6.12%	0.14%
Private Real Estate	12.75%	7.10%	0.91%
Private Equity	12.00%	10.41%	1.25%
Cash	1.00%	-1.50%	-0.02%
Total	100.00%		5.83%
	Inflation		2.50%
	* Expected arithmetic nominal return		8.33%

* Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33% but also has a high standard deviation, which means there is high volatility. Over larger time horizons the volatility declines significantly and provides a median return of 7.44%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the University for the VRS State Employee Retirement Plan and the VaLORS Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, all agencies are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the University's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the University's proportionate share of the VRS State Employee Retirement Plan and VaLORS Retirement Plan net pension liabilities using the discount rate of 7.00%, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1.00 % Decrease (6.00%)	Current Discount Rate (7.00%)	1.00 % Increase (8.00%)
The University's proportionate share of the VRS State Employee Retirement Plan Net Pension	183,644,000	125,362,000	76,492,000
The University's proportionate share of the VaLORS Retirement Plan Net Pension Liability	3,579,000	2,620,000	1,830,000

Pension Plan Fiduciary Net Position

Detailed information about the VRS State Employee Retirement Plan's Fiduciary Net Position or the VaLORS Retirement Plan's Fiduciary Net Position is available in the separately issued VRS 2014 Comprehensive Annual Financial Report (CAFR). A copy of the 2014 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2014-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Payables to the Pension Plan

Included in Accounts Payable and Accrued Expenses at June 30, 2015 are payables of $1,073,702 and $14,104 for the outstanding amount of contributions to the VRS State Employee Retirement Plan and the VaLORS Retirement Plan, respectively.

B. Optional Retirement Plans

Full-time faculty and certain administrative staff participate in defined contribution plans as authorized by the Code of Virginia, offered by TIAA/CREF Insurance Companies and Fidelity Investments Tax-Exempt Services. These plans are fixed-contribution programs where the retirement benefits received are based upon employer and employee contributions, plus interest and dividends. Employees hired prior to July 1, 2010 (Plan 1) have an employer required contribution rate of 10.4 percent. Employees hired on or after July 1, 2010 (Plan 2) have an employer required contribution rate of 8.5 percent and an employee required contribution rate of 5 percent.

Individual contracts issued under the plan provide for full and immediate vesting of both the University's and the employee's contributions. Total pension costs under this plan were approximately $6,675,841 for the year ended June 30, 2015. Contributions to the optional retirement plan were calculated using the base salary amount of approximately $66,913,700 for fiscal year 2015.

Included in Accounts Payable and Accrued Expenses at June 30, 2015 are payables of $944,943 for the outstanding amount of contributions to the Optional Retirement Plans.

C. Deferred Compensation Plan

Employees of the University are employees of the Commonwealth. State employees may participate in the Commonwealth's Deferred Compensation Plan. Participating employees can contribute to the plan each pay period with the Commonwealth matching up to $20 per pay period. The dollar amount match can change depending on the funding available in the Commonwealth's budget. The Deferred Compensation Plan is a qualified defined contribution plan under Section 401(a) of the Internal Revenue Code. The University's expense for contributions under the Deferred Compensation Plan, which is an amount assessed by the Commonwealth, was approximately $873,088 for the fiscal year 2015.

12. AUXILIARY ACTIVITIES

Auxiliary operating revenues and expenses consisted of the following for the year ended June 30, 2015. The University used auxiliary revenues and cash reserves to pay debt service and capitalized improvements of $22,583,857 and $15,359,938. Those amounts are not included in the auxiliary operating expenses below.

Revenues:	
Room contracts, net of scholarship allowances of $2,052,632	$ 28,104,303
Food service contracts, net of scholarship allowances of $2,915,100	40,092,610
Comprehensive fee, net of scholarship allowances of $5,205,220	71,824,983
Food service commissions	10,817,059
Parking fees and fines	3,314,450
Other student fees and sales and services	18,140,768
Total auxiliary enterprises revenues	$ 172,294,173

Expenses:	
Residential facilities	$ 18,154,003
Dining operations	51,559,950
Athletics	26,758,432
Parking services	2,851,960
Health services	4,836,857
Student unions	5,403,549
Student recreation	5,263,230
Other auxiliary activities	10,672,109
Total auxiliary activities expenses	$ 125,500,090

13. EXPENSES BY NATURAL CLASSIFICATIONS

The following table shows a classification of expenses for the year ended June 30, 2015, both by function as listed in the Statement of Revenues, Expenses, and Changes in Net Position and by natural classification, which is the basis for amounts shown in the Statement of Cash Flows.

	Compensation and Benefits	Services, Supplies and Utilities	Scholarships and Fellowships	Non-capitalized equipment, property and plant improvements	Depreciation	Total
Instruction	$ 128,153,577	$ 17,416,907	$ -	$ 3,296,970	$ -	$ 148,867,454
Research	2,462,570	1,329,365	-	135,825	-	3,927,760
Public service	8,889,658	4,219,592	-	160,645	-	13,269,895
Academic support	26,572,675	4,557,447	-	10,046,870	-	41,176,992
Student services	12,771,438	4,301,121	-	319,031	-	17,391,590
Institutional support	19,896,447	8,278,588	-	982,874	-	29,157,909
Operation and maintenance-plant	16,384,476	16,555,121	-	6,407,518	-	39,347,115
Depreciation	-	-	-	-	37,035,401	37,035,401
Student aid	-	-	10,372,523	-	-	10,372,523
Auxiliary activities	38,864,175	82,974,864	-	3,661,051	-	125,500,090
Total	$ 253,995,016	$ 139,633,005	$10,372,523	$ 25,010,784	$ 37,035,401	$ 466,046,729

14. STATE APPROPRIATIONS

The University receives state appropriations from the General Fund of the Commonwealth. The Appropriation Act specifies that such unexpended appropriations that remain on the last day of the current year, ending June 30, 2015, shall be re-appropriated for expenditure in the first month of the next year, beginning on July 1, 2015, except as may be specifically provided otherwise by the

General Assembly. The Governor may, at his discretion, unallot funds from the re-appropriated balances that relate to unexpended appropriations.

During the year ending June 30, 2015 the following adjustments were made to the University's original appropriations:

Original legislative appropriation:	
Educational and general programs	$ 74,433,589
Student financial assistance	7,960,958
Supplemental adjustments:	
Legislative reduction related to state budget shortfalls	(3,113,308)
Legislative increase related to increased access for undergraduate students	1,200,000
Central Fund appropriation transfers:	
Changes in contribution rates for retirement and benefits	1,119,873
Health insurance premium	493,779
Other financial aid transfers	220,825
Other	(1,799)
Reversion to the General Fund of the Commonwealth	(267)
Adjusted appropriation	$ 82,313,650

15. CAPITAL APPROPRIATIONS AND CONTRIBUTIONS

Following are the capital appropriations and contributions recognized by the University from the Commonwealth for the years ending June 30, 2015.

Treasury reimbursement programs:	
VCBA 21st Century	$ 41,106,552
VCBA Equipment Trust Fund	1,861,748
General Obligation Bonds	229,797
Total capital approprations and contributions	$ 43,198,097

16. COMMITMENTS

At June 30, 2015, the University was a party to construction and other contracts totaling approximately $186,667,625 of which $115,597,090 has been incurred.

Under a contract between the Board of Visitors of the University and the City of Harrisonburg dated April 12, 1995, the University is committed to city services for steam and chilled water purchases and waste disposal. The city will bill the University for annual debt service for a new resource recovery facility and cost of delivered quantities of steam and chilled water. The contract will expire April 12, 2036. During the year ended June 30, 2015, such purchases totaled $715,862.

In December 2014, the University entered into a Memorandum of Understanding with the City of Harrisonburg, the Industrial Development Authority of the City of Harrisonburg, dpM Partners, LLC (the developer) and the James Madison University Foundation, to construct and operate a 230-room independent hotel and conference center. As a part of this agreement, the University has agreed to lease land located between Martin Luther King, Jr. Way and East Grace Street to the developer for an annual nominal rent payment for 50 years. Also, the University is constructing a 1,000 space parking deck to support the hotel and conference center.

The University is committed under various operating leases for equipment and space. In general, the equipment leases are for two-year term and the space leases are for three- to four-year terms with appropriate renewal options for each type of lease. In most cases, the University expects that in the normal course of business, these leases will be replaced by similar leases. Rental expense was approximately $5,305,530 for the year ended June 30, 2015.

The University has, as of June 30, 2015, the following future minimum rental payments due under the above leases:

Year Ending June 30,	Operating Lease Obligation
2016	$ 2,784,083
2017	2,338,277
2018	951,636
2019	593,724
2020	191,562
Total	$ 6,859,282

17. POST EMPLOYMENT BENEFITS

The Commonwealth participates in the VRS-administered, statewide group life insurance program that provides post-employment life insurance benefits to eligible retired and terminated employees. The Commonwealth also provides health care credits against the monthly health insurance premiums of its retirees who have at least 15 years of service and participate in the state health plan. Information related to these plans is available at the statewide level in the CAFR.

18. GRANTS AND CONTRACTS CONTINGENCIES

The University has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Claims against these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a federal audit may become a liability of the University.

In addition, the University is required to comply with the various federal regulations issued by the Office of Management and Budget. Failure to comply with certain system requirements of these regulations may result in questions concerning the allowance of related direct and indirect charges pursuant to such agreements. As of June 30, 2015, the University estimates that no material liabilities will result from such audits or questions.

19. RISK MANAGEMENT AND EMPLOYEE HEALTH CARE PLANS

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. The University participates in insurance plans maintained by the Commonwealth. The state employee health care and worker's compensation plans are administered by the Department of Human Resource Management and the risk management insurance plans are administered by the Department of Treasury, Division of Risk Management. Risk management insurance includes property, general liability, medical malpractice, faithful performance of duty bond, automobile, and air and watercraft plans. The University pays premiums to each of these Departments for its insurance coverage. Information relating to the Commonwealth's insurance plans is available at the statewide level in the CAFR.

20. FEDERAL DIRECT LENDING PROGRAM

The University participates in the Federal Direct Lending Program. Under this program, the University receives funds from the U.S. Department of Education for Stafford and Plus Parent Loan Programs and disburses these funds to eligible students. The funds can be applied to outstanding student account balances or refunded directly to the student.

These loan programs are treated as student payments with the University acting as a fiduciary agent for the student. Therefore, the receipt of the funds from the federal government is not reflected on the Statement of Revenues, Expenses and Changes in Net Position. The activity is included in the noncapital financing section of the Statement of Cash Flows. For the fiscal year ended June 30, 2015, cash provided and used by the program totaled $95,478,307.

21. SUBSEQUENT EVENTS

In July 2015, the University entered into a lease agreement with the City of Harrisonburg, which suspends the University's commitment to purchase steam, chilled water, and waste disposal services from the City as discussed in Note 16. During the lease term, the University assumes responsibility for operation and maintenance of the Resource Recovery Facility, and the City commits to decommissioning and closing Waste-to-Energy operations. At the conclusion of the lease term, the University will purchase the facility and lease a portion back to the city for use as a transfer facility. During the 2015 legislative session, the general assembly appropriated $2.8 million in general funds and $2.2 in auxiliary reserve funds for the University's purchase of the facility.

In November 2015, the University entered into a promissory note with the Virginia College Building Authority (VCBA) to participate in the Educational Facilities Revenue Bonds Series A, issued by the VCBA under its Pooled Bond Program. The total principal amount of these bonds is $7,750,000. The University will use the proceeds to construct a parking deck on campus. Payment on the notes will be made semi-annually, with an interest rate ranging from 3.0 to 5.0 percent. The final payment will be in fiscal year 2036.

REQUIRED SUPPLEMENTAL INFORMATION

JAMES MADISON UNIVERSITY

SCHEDULE OF EMPLOYER'S SHARE OF THE NET PENSION LIABILITY

Last 10 fiscal years*

VRS STATE EMPOYEE RETIREMENT PLAN

	2015
Employer's Proportion of the Net Pension Liability (Asset)	2.23926%
Employer's Proportionate Share of the Net Pension Liability (Asset)	$ 125,362,000
Employer's Covered-Employee Payroll	$ 89,571,789
Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	139.96%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.28%

VALORS RETIREMENT PLAN

	2015
Employer's Proportion of the Net Pension Liability (Asset)	0.38856%
Employer's Proportionate Share of the Net Pension Liability (Asset)	$ 2,620,000
Employer's Covered-Employee Payroll	$ 1,511,396
Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	173.35%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	63.05%

Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data is available. However, additional years will be incleded as they become available.

** The amounts presented have a measurement date of the previous fiscal year end*

JAMES MADISON UNIVERSITY
SCHEDULE OF EMPLOYER CONTRIBUTIONS
Last 10 fiscal years

VRS STATE EMPOYEE RETIREMENT PLAN

	2015
Contractually required contribution	$ 10,894,300
Contributions in relation to the contractually required contribution	10,894,300
Contribution deficiency (excess)	-
Employer's covered-employee payroll	97,322,947
Contributions as a percentage of covered-employee payroll	11.19%

VALORS RETIREMENT PLAN

	2015
Contractually required contribution	$ 243,989
Contributions in relation to the contractually required contribution	243,989
Contribution deficiency (excess)	-
Employer's covered-employee payroll	1,592,783
Contributions as a percentage of covered-employee payroll	15.32%

Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data is available. However, additional years will be incleded as they become available.

JAMES MADISON UNIVERSITY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED JUNE 30, 2015

1. CHANGES OF BENEFIT TERMS

There have been no significant changes to the System benefit provisions since the prior actuarial valuation. A hybrid plan with changes to the defined benefit plan structure and a new defined contribution component were adopted in 2012. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. The liabilities presented do not reflect the hybrid plan since it covers new members joining the System after the valuation date of June 30, 2013.and the impact on the liabilities as of the measurement date of June 30, 2014 are minimal.

2. CHANGES OF ASSUMPTIONS

The following changes in actuarial assumptions were made for the VRS - State Employee Retirement Plan effective June 30, 2013 based on the most recent experience study of the System for the four-year period ending June 30, 2012:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of withdrawals for less than 10 years of service
- Decrease in rates of male disability retirement
- Reduce rates of salary increase by 0.25% per year

The following changes in actuarial assumptions were made for the VaLORS Retirement Plan effective June 30, 2013 based on the most recent experience study of the System for the four-year period ending June 30, 2012:

- Update mortality table
- Adjustments to the rates of service retirement
- Decrease in rates of withdrawals for females under 10 years of service
- Increase in rates of disability
- Decrease service related disability rate from 60% to 50%

Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

June 6, 2016

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable Robert D. Orrock, Sr.
Chairman, Joint Legislative Audit
and Review Commission

Board of Visitors
James Madison University

INDEPENDENT AUDITOR'S REPORT

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component unit of James Madison University, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component unit of the University, which are discussed in Note 1.A. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the component unit of the University, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in

Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the component unit of the University that were audited by other auditors upon whose reports we are relying were audited in accordance with auditing standards generally accepted in the United States of America, but not in accordance with Government Auditing Standards.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinions.

Opinion

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and aggregate discretely presented component unit of James Madison University as of June 30, 2015, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principle

As discussed in Notes 1.B. and 1.T. to the financial statements, the University implemented Governmental Accounting Standards Board (GASB) Statements No. 68 and No. 71, related to pension accounting and financial reporting for employers. Our opinion is not modified with respect to this matter.

Other Matters

Prior-Year Summarized Comparative Information

We have previously audited the University's 2014 financial statements, and we expressed an unmodified audit opinion on the respective financial statements in our report dated June 9, 2015. In our opinion, while the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived, it does not include the necessary adjustments for the 2014 financial statements to be comparative with the 2015 financial statements as described in Note 1.S.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 1 through 10, the Schedule of Employer's Share of the Net Pension Liability on page 56, the Schedule of Employer Contributions on page 57, and the Notes to Required Supplementary Information on page 58 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated June 6, 2016, on our consideration of the James Madison University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the University's internal control over financial reporting and compliance.

Martha S. Mavredes

AUDITOR OF PUBLIC ACCOUNTS

LDJ/clj